

Members

Sen. Luke Kenley, Chairperson
Sen. Brandt Hershman
Sen. John Broden
Rep. Peggy Welch
Rep. Eric Turner

Advisors

Sen. Robert Meeks
Sen. Lindel Hume
Rep. William Crawford
Rep. Jeffrey Espich
John Grew
Steven Johnson
Katrina Hall

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COMMISSION ON STATE TAX AND FINANCING POLICY

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MEETING MINUTES¹

Meeting Date: August 27, 2007
Meeting Time: 1:00 P.M.
Meeting Place: State House, 200 W. Washington St.,
Senate Chambers
Meeting City: Indianapolis, Indiana
Meeting Number: 4

Members Present: Sen. Luke Kenley, Chairperson; Sen. John Broden; Rep. Peggy Welch; Sen. Robert Meeks; Rep. William Crawford; Rep. Jeffrey Espich; John Grew; Steven Johnson; Katrina Hall.

Members Absent: Sen. Brandt Hershman; Rep. Eric Turner; Sen. Lindel Hume.

I. Call to Order.

Sen. Luke Kenley, called the meeting to order at 1:10 PM. He announced the next meeting of the Commission would be on September 17, 2007. The Chair also announced the web address for the Commission is propertytaxreform.in.gov.

II. Indiana Property Tax Revenues - The Challenges of Change; Presentation by the Legislative Services Agency (LSA).

Sen. Kenley introduced Diane Powers, Director of the Office of Fiscal Management and Analysis of the LSA, to give a presentation concerning options for eliminating property taxes. Ms. Powers, along with Dr. Jim Landers, Senior Fiscal Analyst for the LSA, made a slide presentation entitled "The Challenges of Change" (Exhibit A). Ms. Powers and Dr. Landers also distributed background information to the Commission relating to various topics discussed in the presentation (see Exhibits B through F).

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.in.gov/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

The Commission discussed the following issues with Ms. Powers and Dr. Landers concerning the presentation:

- collection of data on the amount of revenue foregone due to the current statutory Sales Tax exemptions;
- the range of rates other states use to tax the sale of various services;
- policy rationale of Ohio's change from a corporate adjusted gross income tax to a gross income tax on businesses;
- effects of the underground economy and/or cash payments on estimated revenue collections from an increase in the Sales Tax rate;
- taxation of food by other states;
- the regressive versus progressive nature of certain taxes;
- liability to current bondholders of debt currently funded by property tax revenue;
- possible changes to interest rates that could be obtained by local units of government due to the elimination of property taxes; and
- other legal issues faced by the possible elimination of property taxes.

III. Repeal Property Taxes Proposal.

Sen. Kenley recognized Eric Miller, Advance America, to testify concerning a proposal to repeal property taxes. Mr. Miller testified that this proposal included the following:

- limiting all government spending to the rate of inflation and population growth;
- convening a special session of the General Assembly, with no payments of legislator compensation;
- changing the timing of the property tax rebate passed in HEA 1001-2007;
- passing a constitutional amendment to repeal property taxes effective 2012;
- using portions of the state surplus to provide property tax relief;
- requiring approval of certain capital projects by referendum; and
- increasing other taxes now to offset future revenue losses due to a repeal of property taxes.

The following issues were discussed by the members of the Commission with Mr. Miller:

- the property tax legislation passed in the 2007 session of the General Assembly;
- the Commission's preference for more immediate solutions to addressing property tax problems;
- challenges in limiting government spending if medicaid and educational costs rise above the rate of inflation and population;
- the elasticity of increasing tax rates and estimating revenue collections;
- changes that occur in certain tax bases when the rates are increased;
- savings realized from eliminating property assessment costs;
- the effect of spending limits on growing communities;
- other state proposals to eliminate property taxes;
- the effects of moving local government debt to payment from local income taxes;
- medicaid, education, and criminal justice expenditure obligations;
- costs of referendum versus petition and remonstrance; and
- possible rising demand for government services.

IV. Public Testimony.

Next, Sen. Kenley allowed members of the public to testify before the Commission concerning proposals to eliminate property taxes. The Commission discussed the following topics with

members of the public who testified:

- tax policy differences between property taxes and income taxes as revenue sources;
- characteristics of certain communities where property taxes may be preferred versus local option income taxes;
- budgeting differences for local units without property taxes;
- economic incentive options for local units without property taxes;
- shifts in tax burden if property taxes are eliminated;
- business and agricultural property tax exemptions, deductions, and abatements;
- payment in lieu of taxes proposals for entities exempt from property taxation;
- the impact and implementation by local communities of HEA 1478-2007;
- county versus city needs, and decisions to adopt local option income taxes for property tax replacement;
- the impact of property tax problems on rental owners;
- budgeting procedures of local units of government;
- background information and causes of local government spending increases;
- restructuring local government;
- changes to the assessment system;
- proposals by Indiana Farm Bureau including:
 - eliminating certain levies entirely rather than eliminate all property taxes;
 - increasing the Sales Tax base by taxing services;
 - implementing a graduated income tax rate;
 - changing the caps and limits on capital project review requirements;
- elimination of property taxes only for individuals or only for business;
- property tax replacement options; and
- taxing land and buildings at two separate rates.

Several members of the public submitted written testimony (see Exhibits G through J).

V. Other Business and Adjournment.

Sen. Kenley announced that the Commission would meet on September 17, 2007 to discuss the following:

- state assumption of the school general fund and the local welfare budgets;
- taxation of rental properties;
- distribution of local option income taxes; and
- the West Lake mass-transit expansion project.

Sen. Kenley adjourned the meeting at 6:30 PM.